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## THE RAILWAY POLICY OF PRUSSIA.

### I.

Great civilized nations learn, in turn, from each other. For a century Germany has regarded the individualism of England and of the English-speaking people as a model for imitation. To-day, the legislation of England assumes more and more the characteristics which the English have for a long time regarded as distinctly continental or German. This fact exists all the same, even though in England this assimilation is not generally recognized. It remains, nevertheless, by whatever name the peculiar tendency of the recent legislation may be designated, whether it is called socialistic, state-socialistic, or bureaucratic. A few years ago William Clarke, in a noteworthy article in the *Political Science Quarterly*,<sup>1</sup> while, no doubt, presenting this latest development from a somewhat sanguine point of view, yet gives an accurate representation of the facts when he says, among other things: "The government has rendered popular education compulsory; it has truck acts to regulate payments of wages, mine regulation acts, factory and workshop acts, interfering at every point with the liberties of the capitalist; adulteration acts, and acts to compensate workmen for injuries due to their employers' neglect. The telegraphs have been acquired by the state, and the functions of the postoffice have been so enlarged that, besides sending and delivering letters, it now dispatches telegrams, and is a common carrier and banker on an enormous scale. The British state has now 150,000 persons in the direct service of the community in purely civil employments. . . . Municipalities now own public parks and gardens, gas and water works, street railways, hospitals and artisans' dwellings, and in many towns a vast area of house property." Indeed, most of this legislation typically exemplifies the fact that, in her most

<sup>1</sup> *Socialism in English Politics*.—December, 1888.

recent law-making, England is following in the path of Germany. In some things England has already overtaken, in other things England has even distanced, Germany, as in the case of the eight-hour working day, which daily gains popularity, and which Gladstone's ministry may be obliged to establish by law, at least for certain kinds of labor.

Yet, in many respects, Germany is giving this policy a wider application; above all in respect to the state railway system. It may be asked whether, in this particular field, individualistic England is still to maintain the precedence she enjoyed some decades ago, before the new tendency of opinion had set in; and whether, because of the very greatness of this subject, individualism is here to be allowed a more lasting influence. Or, by a kind of statistical method, is a majority vote of the whole world to decide in favor of private railways?

I myself have grave doubt on these questions. The entire legislation of all countries concerned gives evidence that the old fundamental principles of the law of public highways can not be set aside for railways, because they are the most important and influential class of highways, and possess the power belonging to great accumulations of capital. England herself, before all other countries, gave evidence of this. The traditional practice of attaching a long series of public obligations to the permission to open a new highway was applied to the very first act of Parliament for issuing franchises to "railways or tramways," as early as the year 1801. But England especially incorporated in her first great railway law the idea of uniting into a state railway system the railways for whose construction permission had thus been given. In the law of August 9, 1844 (7 and 8 Vict. C. 85), "an Act to attach certain conditions to the construction of the future railways," it is declared that "it shall be lawful, at any time after the expiration of twenty-one years, to purchase any such railway in the name and on behalf of Her Majesty, upon giving to the said company three calendar months' notice, in writing, of their intention, and upon payment of a sum equal to twenty-five years' purchase of the annual divisible profits, etc."

It is not the object of this article to examine the reasons why England has not as yet succeeded in shaping her railway system in accordance with the law of 1844, the less so as this question has been elsewhere discussed. On the contrary, there will be presented the positive side of our comparison, the development and the result of the German, or especially of the Prussian, railway policy.

## II.

However opinions may differ as to the railway systems of England and of other countries, it is certain that in Prussia, at any rate, the preference in the beginning for the private, as opposed to the state, system of railways, was demanded by definite political circumstances. While in the smaller German states, Brunswick, Hanover, Baden, Württemberg, the state railway system gained a footing from the very beginning, Prussia was obliged at first to reject it on account of obstacles growing out of the constitution of the state. The Royal Ordinance of January 17, 1820, had been designed to show clearly the amount of the state debt, and to strengthen the credit of the state through an awakening of public interest, by special reference to the controlling power of the estates of the kingdom, the assemblage of which had been considered since the reform period of 1808-10. The ordinance runs: "Should the state be brought, in future, to the necessity of undertaking a fresh loan for the maintenance of the state itself, or for the furtherance of the general good, this can be done only with the participation and under the guarantee of the assembled estates of the kingdom."

In consequence of this, the actual necessities of the state were supplied by makeshifts, which concealed the fact that debt was incurred; or only those needs were supplied at all which could be met without resort to borrowing. For the summoning of popular representatives—the stipulation demanded by the constitution for borrowing—was a step which, up to 1848, the government refused to take. Accordingly, when the

government of Frederick William IV., in 1842, took resolutely in hand the construction of a Prussian railway system and called together for preliminary consultation the delegates to the provincial diet, the government confined itself (although the delegates were overwhelmingly in favor of state roads) to advancing their construction by a state guarantee of interest. Not before the constitution of 1848, were the legal conditions provided for the contraction of loans for building state railways. But as early as 1849, the government and the new popular assembly determined upon the first great state railway, connecting the capital with the eastern border of the monarchy, and smaller state roads, as well, for the western provinces. At the same time the state took into its own hands the administration of a number of roads for which it had become guarantor, and which had yielded revenues of unsatisfactory amount—in some cases obtaining possession of the property rights of the shareholders. It was a striking part of this situation that the administration of the state was more productive of revenue than that of the corporations. This epoch of Prussian railway policy (1848–58) is inseparably associated with the name of the minister of commerce, Von der Heydt, a man who, coming from the industrial classes of the Rhine provinces, had already, in the assembly of delegates in 1842, championed the system of state railways.

### III.

After the railway system of Prussia had been given its essential character in accordance with the railway policy of Von der Heydt, there followed a period of fluctuating uncertainty, as opposing tendencies alternately prevailed. This was the period immediately before and after the founding of the German Empire—the years 1859–75. On the whole, this period was unfavorable to the carrying out of a railway policy. The great constitutional conflicts occupied the foreground, at first those within Prussia, and next the great struggles for the unification of Germany. These were the essential interests which at this

time occupied the attention of the nation and the governing powers. Moreover, the economic movement in the different states during this period, in that it served as a preparation for economic union and burst the bonds of German particularism, was in the beginning opposed to the tendencies favoring a state railway system. The partial success with which it met is shown by the provision of the constitution of the North German Confederation in 1867, and of the German Empire in 1871. A certain counter-force was brought into play by the Prussian annexations of 1866, which added to the network of Prussian state railways a wide extent of well administered and excellently developed state railways—those of Hanover, Hesse and Nassau. But the stronger tendency was, in my opinion, the individualistic one, which prevailed in the entire economic life of those years, and which brought it about that, in the fever of speculation following the victory over the French and the unification of Germany, railway enterprises played an important and even a disastrous part. The famous speech of Lasker in the Prussian House of Delegates, and the committee of investigation to which it led, mark the beginning of a new period. The report of this committee recalled the state railway policy of Prussia to its old course. "Economic considerations," says the report, "require the union of all the railways under the control of the state."

With the foundation of the new empire, however, the choice between state railways and imperial railways squarely presented itself. The military experiences of the wars of 1866 and 1870–71, by showing the defects of existing conditions, pointed out the strategic superiority of a railway system unified under state ownership; the general political importance of an imperial railway to the national unity so recently achieved, and to the intimate economic relations which had been established between the different states; and the economic advantages already evident in the state railway systems as resulting from a widely extended and unified organization of means of communication. It was such considerations as these that led to an attempt at

extending the reform of the railways beyond the boundaries of Prussia throughout the entire empire.

The attempt was made in the years 1873-76. It was shipwrecked by the opposition of the smaller German states which had no inclination to yield to the empire the state railways which they possessed, in other words, to give up even another portion of their sovereignty for the benefit of the empire. Then Prussia proceeded alone. Her state railway property was made the basis of her new policy, which was, in fact, only a continuation of the old, and merely made additions to an old and permanent policy; not after the manner inevitable in France, or in Italy, or still more in England, where the experimental bases for a reform on so great a scale were, and still are, lacking, and where the transition to the state railway system would be bold empiricism.

#### IV.

The first bill providing for the acquisition of private railways by the state (October 29, 1879), exhibits at the same time the motives of the new policy. "One need only look," it declares, "at the map of the Rhenish-Westphalian coal districts, in which the lines of the three great Rhenish railways (with their hundreds of side connections, with the numerous pits, mines and industrial establishments) seem to cross and intertwine intricably, to recognize the waste of capital, both in the construction and operation of so intricate a network, whose configuration is determined by the competitive interests of their builders, not by the requirements of traffic. . . . The needs of trade might have been satisfied with a fraction of the capital expended, if construction had been systematically and uniformly planned."

In the year 1877 there were in Prussia fifty independent railway administrations, forty-five of which acted in conjunction with supervisory boards representing corporations; each of these had in operation, at an average, 359 kilometers; the roads controlled by corporations only 247 kilometers, and of these latter twelve had each less than 100 kilometers. No one of these lines

was complete in itself, controlling independently the traffic of a district. The negotiations as to joint tariff regulations or other traffic arrangements, the settlement of claims between different lines, agreements as to the use of the different cars, business at junctions, time schedules and the like, involve an expense which might be entirely saved by unified administration.

The state has everywhere attempted to guard the public interest, as it is affected by railways—according to the motives of the bill above mentioned—on the grounds herein specified :

The railways are public highways, on which it is the duty of their management to furnish transportation service. This service is, from its very nature, monopolistic. Not only private communication, but also the postal service of the state and its military transportation, are exclusively confined to the railways. Therefore, it is the duty of the state, in permitting the construction of railways, to take care that the capital of the country is employed only where it can exert a fructifying influence.

The creation of railways involves an interference of a most varied kind with public and private interests, and this, in turn, necessitates the delegation of the right of eminent domain. Therefore, the state may allow only the construction of such railways whose use justifies this interference. The state must look to it that their construction is systematic.

With reference to the operation of the roads, the state must especially require safety; it must, therefore, inspect the road-bed and the rolling stock, approve the running schedules, oversee the maintenance of the road when it has been constructed, etc.

The railways have proved themselves especially important in the interest of national defense. The rapid concentration of necessary military forces is of the most decisive importance for success, and similarly important is communication between the army in the field and reinforcements, supplies and the like. For these purposes there is need of a vigorous interference and coöperation on the part of the state in laying out the roads and in their equipment and operating arrangements.



The most important and difficult phase of the railway problem, in its relation to the interests of the public, is the determination of rates with reference to reasonableness, fixity and equality, but especially with reference to the tariff policy, that is to say, to the economic intercourse of the country in question, with foreign nations. At this point there must be evident the necessity of an active interference on the part of the public authority, so vigorous as to seem hardly compatible with the independence of private management. Now, the state railway system is the logical outcome of all the considerations above quoted, because their requirements are satisfied by this system only.

## V.

The actual procedure in the acquisition of private railways was in nearly all cases the following: The government imparted its purposes to the management of the roads of which it designed to obtain possession, and at the same time presented the conditions on which it was ready to buy their stock. Hereupon followed negotiations, resulting in an agreement which fixed in detail the conditions of the purchase. Then the approval of the general meeting of the stockholders of each company was secured, and finally the purchase was ratified by the legislative power of the state. The negotiations were by no means always successful at first; on the contrary, in many cases, several years passed before agreement was reached. In the majority of cases the dividends which the stock had yielded for some years served as a basis for calculating the purchase price. In such a case, the state bound itself to pay to the stockholders a fixed yearly income in place of their accustomed dividends, and to exchange the shares for state securities. The amount of this assured income varied from three to eight and one-half per cent., according to the income already yielded by the different companies. In the cases of a minority of the roads which had paid small dividends or none, a part of their nominal capital was paid as the price.

Almost the entire body of officials and employees was taken into service by the state railway administration, excepting only the actual management and their immediate assistants. These received a quittance payment which decreased if they, too, entered into the state railway service.

Both houses of the diet approved the proposal of the government (Act of December 29, 1879), but demanded certain restrictions on future state railway administration, with a view partly to financial, partly to industrial, security. This demand was satisfied by the two laws of March 27, 1882, and June 1, 1882. Financial dangers were to be avoided by guaranteeing the treasury of the state against disturbances from variation in the surplus of the state railways, and further, by provision for systematically wiping out the debt on the state railway capital. The safety of the industries of the country was to be secured by the establishment in the separate districts of boards representing the business interests concerned, known as "district railway councils," whose duty it should be to inform the state railway management of the needs of trade. Preparation for this step was already made by an order of the imperial railway department, dated January 11, 1875, directing all German railways to adopt a plan first employed in Alsace-Lorraine by which the more important questions of railway management should be decided only after consultation with representatives of the commercial, industrial, and agricultural interests. This arrangement had already been further extended on the Prussian state railways by an order of June 27, 1878, and afterwards on the other German state railways.

## VI.

At the end of the year 1882 the network of German railways had an extent of 34,600 kilometers, of which 29,000 kilometers were under state control; at the end of 1890 the total extent was about 42,000 kilometers, of which 37,600 were under state management. In Prussia alone the total length of the railways is now in round numbers 27,000

kilometers, of which 25,000 kilometers are under government management.

During the last year, the Prussian state railway system has become a subject of frequent discussion, with especial reference to its financial policy. In this connection the legislation of 1882 designed to give security to the public finances has again been brought to mind. The purport of this legislation was as follows: On December 15, 1880, the government proposed to the lower house of the diet a bill bearing upon the expenditure of the annual surplus from the state railways. It was proposed to employ this surplus, in addition to paying interest and wiping out the debt, for the formation of a reserve fund which should compensate for the variation in the surplus of successive years. It was fatal to the project of a reserve fund that the balance sheet of the state at that very moment, for 1881-82, showed a deficit of thirty millions. The majority of the committee on the budget, accordingly, found it inexpedient to establish a reserve fund, when there was a deficit in the general finances of the state.

The discussion was repeated the following year with the same outcome. A minority uttered an impressive warning against the policy of regarding the surplus of the railway system as a regular source of state income. But the majority, both in the committee and the house of delegates, persisted in their opposition to a reserve fund, and the law for the "guarantee of the finances," without the reserve fund, was passed, March 27, 1882.

To this defect are due the most recent objections to the financial administration of the Prussian state railways, although these criticisms are not directed to the right point. Indeed, it is remarkable that the surprisingly rapid successes of the Prussian state railway system in the first decade of its operation have come to be regarded from an altogether erroneous point of view.

## VII.

The actual success was as follows: Each year the railways not only paid in full the interest on the railway debt, but that on

the entire state debt; in addition, they yielded a very substantial surplus, which in the fiscal year from April 1, 1889, to March 31, 1890, reached the maximum amount of 145,000,000 marks. Since then, this surplus has, it is true, diminished, but it still amounted for the last year (1891-92) to about 90,000,000 marks. Moreover, in accordance with the law of March 27, 1882, more than 550,000,000 marks of the railway debt has been extinguished. Although one might justly feel satisfied if the railways paid the interest on their own capital, expectations were so raised by the abundance of the surplus that the demand was now not merely for a surplus, but for a great surplus, constantly increasing with the constant increase in the needs of the general administration of the state.

This brings us to another great defect which, besides the want of a reserve fund, is to be observed in the Prussian (and German) financial system. The defect referred to consists in the fact that for the inevitable increase in the need of revenue by the state there is no corresponding provision in the form of the tax system. In the last decade, the fortunate financial condition of the Prussian railway system was depended upon for filling this gap, and to-day complaints are raised that more recently the same means of filling it are not in the same degree successful,—a remarkable bit of unfairness. Suitable new taxes should be provided, and the state railway administration should be relieved of unreasonable demands.

How does the case stand in other countries? In Austria, the state railways bring at most two and a half per cent., in Hungary about three per cent. Still less fortunate are the financial relations between the government of France and the system there prevalent of subsidized corporations. For the years 1884-1890, alone, the French government has been obliged to supplement the dividends to the amount of 369,000,000 francs, under the law of November 20, 1883, which established their relations anew. At the end of 1883, the claims of the state against the railway companies amounted to 673,000,000 francs.

## VIII.

It is further to be observed that the surplus in the Prussian state railway system is not the consequence of a narrow policy as to rates. It is one of the inherent difficulties of state railway management, that the various groups of interested persons make unreasonable demands for lowering of rates. The first essential to a statesmanlike management of state railways consists in knowing how to resist these demands. But at the same time, the management, conscious of its public character, should respond to all just claims and thereby demonstrate its peculiar fitness for the administration of railways, as compared with private management.

In fact, the management of the Prussian state railways has achieved no small success in this respect. In the transportation of passengers as well as of goods numerous improvements have been introduced. The time schedules for both through and local business have been judiciously rearranged; out of special regard for local business new stations have been provided; return tickets, season tickets, etc., have been brought into extended use; the poorer classes of the population, especially those working at a distance from their homes, have been granted many advantages, from benevolence or out of regard for the public good.

The reordering and simplification of freight tariffs has been of great importance. Since 1877 there has existed a harmonious scheme of freight tariffs for all the German railways. Changes in these, and classification of special rates are possible only by unanimous decision of all railway administrations. The rates-commission, and the general conference of German railways consider all changes desired either by the people or by the management of a railroad. In this way a great number of arbitrary differences in freight rates on German railways have been removed. It has been possible to present the rules in a small pamphlet, intelligibly and synoptically. According to official calculations, the charges for railway services in the freight department alone have been diminished, since the organization of the joint tariff system in 1877, by the annual amount of least 100,-

000,000 marks, in Prussia alone by 65,000,000 or 70,000,000. The passenger tariffs have also been lowered, though not so considerably. A more extended reform in passenger rates was about to be undertaken when it was interrupted by the financial difficulties already mentioned.

## IX.

In the above discussion we have wished to call attention to the first decade of the Prussian state railway system. Although this new enlarged system of state management is based in some part on the experience of the preceding thirty years, it is, therefore, not literally, but in reality the first decade. At any rate, it is the first attempt on so great a scale, and one which may be regarded as on the whole so successful—though it is far from being perfect in all its parts—that no one outside of the radical opposition ventures to attack it. As for the immediate present, attention is being directed to the working out of certain reforms of special moment—modifications in the administrative organization, improvements in the training of officials, and various necessary changes in the personnel of the management.

It is natural that a wholly satisfactory condition can here be obtained but slowly. In Prussia and in Germany, no practical man thinks of returning to the private corporation system. Indeed, no one who knows the facts seriously doubts that an immense step in advance has been taken, compared with times passed by. Neither are professed enemies of the system so much to be feared now as the extreme champions of state railways, who make unreasonable demands upon the system. While we have observed that on the one side extravagant demands are made upon the seemingly limitless financial productivity of the state railways, we find on the other side still more dangerous friends, who would disturb the satisfactory condition of the state railway finances (their promise to the contrary notwithstanding) by radical reforms in tariffs, and who are fond of indicating their common purpose by the use of the catchword "zone-tariff." So far as these wishes contain a central element of truth, they

must be satisfied by suitable reforms—such as, perhaps, the establishment of the reserve fund, which was slighted by the legislation of 1882, and also by judicious changes in the tariffs. For each there will be need of corresponding financial conditions, which are at present wholly lacking. But at the very time when the needed reforms are being carried through will there be needed the greater determination in opposing dangerous experiments which are likely to compromise the entire state railway system.

We have said nothing as to a phase of the new system which in other states would have demanded a most thorough discussion, but which, in Germany, may properly be passed by in silence, the question, namely, as to the personal integrity which is required for a financial operation of this kind and compass. Of this, nothing is to be said, for no one has ever ventured to make the slightest accusation against the men who have carried out this reform—certainly not for the reason that Germany is without the necessary freedom of the press. On the contrary, we, too, for our part, have quite enough of such freedom. The events of the days just passed have shown that the boldest and most shameless slander against those in the highest offices of the administration may be circulated at every street corner. The true reason has been, I suppose, that, in spite of the incentive of our keenest partisanship, the eager eye of the accuser has been able to discover nothing.

GUSTAV COHN.

GÖTTINGEN, GERMANY.